

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON HESSEQUA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hessequa Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 1 to 85.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) of South Africa, Division of Revenue Act, 2010 (Act no. 1 of 2010) (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hessequa Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with South African SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 48 and 49 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of a change in accounting policy and errors discovered during 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Material losses

10. As disclosed in note 53 to the financial statements, water distribution losses of R510 384 (40,4%) were incurred during the 2010-11 financial year (2009-10 financial year: R384 441 (38,8%)) as a result of ageing infrastructure assets.

Material underspending of the budget

11. The Municipality has materially underspent on its capital budget by an amount of R11 244 084. This was mainly due to a country-wide shortage of raw materials for the construction of roads and the environmental impact assessment for Slangrivier sewerage not being approved. The unspent capital budget has been carried over to the 2011-12 financial year.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

13. The draft annual report has not yet been submitted to us for review to identify any material inconsistencies that may exist between the annual report and financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

14. The supplementary information set out on pages 86 to 99 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Reliability of information

16. The reported performance information was deficient in respect of the following criteria:

- **Validity:** The reported performance did not occur and does not pertain to the entity
- **Accuracy:** The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.

17. The following findings relate to the above criteria

- For the selected objectives 24% of the reported indicators were not accurate based on the source information or evidence provided.
- For the selected objectives the validity and accuracy of 21% of the reported indicators could not be established as sufficient appropriate audit evidence and/or relevant source documentation could not be provided

Compliance with laws and regulations

Expenditure management

18. The accounting officer did not take reasonable steps to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

19. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.

20. The contract performance measures and methods whereby they are monitored on a monthly basis were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.

Asset management

21. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

Internal audit

22. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA) and regulation 14 of the Municipal Planning and Performance Management Regulations, 2001 (regulations), issued in *GNR.796 of 24 August 2001*.

Predetermined objectives

23. Adequate explanations and corrective action for major variances between the planned and the actual reported targets were not provided, as required by regulation 13 of the regulations.
24. The audit committee did not function as required by regulation 14 of the regulations in that the audit committee did not meet at least twice during the year, review the quarterly reports of internal audit on their audits of the performance measurements for the municipality, review the municipality's performance management system and submit an auditor's report to the council regarding the performance management system at least twice during the financial year.
25. The Municipality did not disclose a comparison of performance with targets set for the current and previous financial years, in the annual performance report as required by section 46 of the MSA.

INTERNAL CONTROL

26. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

27. Action plans to address internal control deficiencies identified on predetermined objectives in the prior year were not adequately implemented and monitored which resulted in recurring findings in the current period.
28. The deficiencies were not analysed and appropriate follow-up actions were not taken to ensure that external audit findings relating to predetermined objectives raised were appropriately addressed.
29. A council approved implementation plan exists, procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities relating to procurement and contract management performance were not established effectively.

Financial and Performance Management

30. Management did not take adequate action to address risks relating to the achievement of complete and accurate performance reporting. Management did not adequately monitor and review reported performance information.

31. Asset register reconciliations were not regularly performed nor reviewed and compared to accounting records to ensure completeness and accuracy thereof as well as compliance with the reporting framework. This resulted in material misstatements identified and corrected during the audit. The underlying reason for the control deficiency is due to the timelines for finalisation of accounting records not being adequately enforced by the chief financial officer resulting in limited time available for review of financial statements and supporting working papers to be submitted for audit.

Governance

Performance audit committee

32. Although a performance audit committee was established, the committee did not function during the year as the committee never met and consequently did not perform their required duties.

Internal audit

33. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measures and the performance report as part of its internal audit process.

OTHER REPORTS

Investigations

34. During the current financial year an investigation into the alleged improper soliciting of businesses for donations to a political party was undertaken, Council reprimanded the individual for the actions and the matter has been closed.

Auditor General
Cape Town

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence